methods applied to the labor problem. But the author is in error in his assumption that Cardinal Gibbon's memorial to the Holy See in 1887 on the Knights of Labor was presented to secure a reversal of papal condemnation of the Knights in the United States. That organization had been proscribed in Canada, not in the United States. What the Cardinal succeeded in securing was not the revocation of a condemnation but the prevention of a condemnation of the Knights of Labor in the United States.

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Money, Prices, Credit, and Banking

Banking Principles and Practice. I, *Elements of Money, Credit and Banking.* II, *The Banking System of the United States,* III, *Domestic Banking—Cash and Deposit Operations.* IV, *Domestic Banking—Earning Assets.* V, *The Foreign Division.* Five vols. By RAY B. WESTERFIELD. (New York: The Ronald Press. 1921. Pp. 1370. $12.)

The chief obstacle to a comprehensive treatment of the principles and practice of banking is similar to the difficulty which confronts all attempts to discuss realistically the bearing of economic principles upon business policy. The common experience with courses in business is that the beginner, in the absence of guiding principles, gets lost in an entanglement of facts; while, if he specializes in the principles

alone, with appropriate hypothetical illustrations, he acquires a set of abstractions which have little bearing on problems of policy. The purposes in this field of teaching seem to require the inculcation of principles and the communication of useful information at the same time, though the best method of achieving such a combination is not yet clear.

Professor Westerfield's method of overcoming this difficulty is to move from the general to particulars, from a statement of underlying principles to a description of the administrative organization and routine practice of banking. Thus the first volume sets forth the accepted fundamentals of money, credit, and banking; the second volume furnishes a brief historical survey of commercial banking in the United States, including a description of the federal reserve system; and the three remaining volumes give a detailed account of the internal organization and operations of a bank, covering both domestic and foreign business. This indicates the scope of the discussion and the distribution of emphasis as well as the order of presentation. Even thirteen hundred pages is a limitation in covering so wide a range of topics, and so the author has skimped on the theoretical aspects of banking and given fuller treatment to banking practice.

The exposition is greatly facilitated by the use of a simple structural plan and by a style of unusual clarity and conciseness. In the statement of principles the structure which determines the order of topics and their proportional importance is that familiar in classical theory—money, government and bank credit, bank notes and deposits, reserves, prices; in the discussion of the banking system the framework is adapted from the laws establishing and regulating national banks and the federal reserve banks; and in the description of banking practice the internal administrative organization of the bank sets the chapter headings. The direct and simple statement of principles, the avoidance of controversial issues, the apt use of historical illustration, and the concrete references to banking operations make the discussion move forward easily and smoothly.

So smoothly, in fact, does the discussion develop that the attention is hardly arrested at those points where the conclusions may be open to question or qualification. Thus, for example, the relation of credit to prices is briefly disposed of by the use of "the equation of exchange," without indicating the limitations of that device as a means of predicting price movements. Now, from the standpoint of clarity, compactness, and logical completeness, the quantity theory is unrivalled as a statement of the mechanical forces operating on the price level, under given assumptions; it already has behind it an interesting and checkered career, and it doubtless has a long and eventful life ahead of it. For these reasons the student should get well acquainted with the

theory. But as a guide to action in a world where the necessary assumptions are contradicted by actual experience the theory has certain shortcomings. The process by which credit expansion accompanies rising prices and liquidation ensues when prices decline, carries with it such serious consequences for the banker, the borrower, and the community that the process should be fully described, with such generalizations as are possible. Even at best the present state of our knowledge does not permit complete explanations or confident predictions, but is it not wiser to specify these limitations than to preserve the appearance of giving a solution by an appeal to an ultimate principle?

The best results in securing really vital connections between principle and practice are at those points where Professor Westerfield's analysis oversteps the boundaries of the stricter theory and goes directly to a consideration of the bearing of facts upon public regulation or business policy. Instances of this are in the discussions of banking statistics as business barometers; the methods of increasing reserves; the liquidity of the banking system as a whole; factors influencing the discount policy of the Federal Reserve Board; the character of the collateral loan market and the determination of call loan rates; the control of gold movements and the influence of currency inflation on foreign exchange rates. The mere citation of these topics shows how much of their discussion would necessarily fall outside the over-simplified statements which are presented in the first volume as the fundamental principles of banking.

These topics admit that economic events are only partially under the control of men and that one purpose in studying them is to establish a more adequate control. Contrast their discussion with that usual introductory statement of principles which leaves the impression that our financial machinery is already working so conveniently and automatically as to hardly require more than an occasional oiling. Thus, money serves as a medium of exchange and, by overcoming the difficulties of barter, makes possible an increase in the division of labor. Credit instruments serve as substitutes for money, and "as standard money facilitates exchange over the barter economy, so credit facilitates exchange over the money economy." Also, credit makes "fixed wealth rapidly transferable and marketable so that it may be diverted to that operator who can make best use of it." Governments and banks both furnish credit money, but experience proves that governments cannot be trusted to issue paper money while bankers can. "If no limitations are laid by law on credit issues the bankers will of their own accord normally provide elastic note-issues and elastic deposit currency." The quantity of money and of credit substitutes determines the level of prices. "The price level varies directly as the quantity

of money and the velocity of circulation and inversely as the volume of goods traded."—All of this may or may not be true; and, if true, may or may not be relevant; but, in any case, why regard these proverbial sayings as peculiarly fundamental, more trustworthy than other generalizations drawn immediately from the facts, principles *par excellence*?

One way to make certain that principles have a bearing upon practice is to see to their origin: catch them young. Rules of action seem to harden into principles as they grow old, to crystallize into a body of doctrine and to become a thing apart and aloof from action. Most of them, at the time of their birth, played a part in the controversies of their day; many of them are kept alive by their relevancy to recurring situations; doubtless not a few will live to fight another day. But, as time passes, the tendency is for men of another generation to treat these older rules of action as ultimate principles upon which the mind may rest. The perpetuation is harmless enough unless in the meantime new and pressing problems arise which call for action; then these ancient rules are as likely to inhibit as they are to help. The final proof of their irrelevance is furnished whenever more can be seen with the naked eye than by looking through the spectacles of doctrine.

The upheaval in monetary and financial affairs brought about by the war has seriously upset those relationships which standard theory has regarded as normal. As a consequence the conclusions deduced from these principles must either be qualified and supplemented or the theorist must make a more direct appeal to the facts. As was indicated in the topics cited, Professor Westerfield has not put more reliance than is customary upon the guidance which the older principles can offer under these new and untried circumstances. But a comprehensive modernization of principles is too large a task to undertake singlehanded. All students of monetary theory must recognize that for at least a decade ahead the facts concerning the international flow of gold, the discount policies of central banks, the determination of foreign exchange rates, and the adjustments between price levels in various countries will not fit into a pattern which assumes normal (pre-war) relations. Would it not be a wise economy during such a period for all those interested in banking theory and practice to declare a holiday, guarantee for ten years the *status quo* in classical principles, and use the vacation in taking a look at the facts? A theory more relevant to present problems might arise out of the facts than has come down to us out of the past.

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